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Opinion: Federal Home Loan Banks' benefits to consumers, economy outweigh risks



Federal Home Loan Banks have existed since 1932.

WITTHAYA PRASONGSIN

By Jan Owen
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In some policy circles — and especially here in Sacramento in the wake of high-profile bank collapses in our state — it's chic to contend that **Federal Home Loan Banks (FHLBanks) have gotten out over their skis**. This view holds that the 11 regional banks — largely unknown to consumers — drift into problematic territory by providing liquidity for a wide range of member financial institutions — some of whom are in financial distress.

As a former Californian regulator who oversaw our state's depositories, we need to set the record straight.

This thinking, frankly, is downright foolish. Since when is it a bad idea for lenders to have additional paths to liquidity? Our communities are dependent on a healthy and vibrant lending environment. One just has to look at the 2.5 million of additional housing units needed over the next eight years to support the growing population. Where will the funding come from to build these units? From our local lenders, under threat in a whole host of ways.

Part of the problem is that much of our society, including too many public officials, is not well-informed about the essential role FHLBanks play in America's financial system. During my 15 years as California's lead regulator and over 30 years as a bank executive, the importance of their function is something I saw firsthand.

Created and chartered by Congress in 1932, each FHLBank is cooperatively owned by its member financial institutions, who are its shareholders. Needed to boost liquidity for institutions providing housing and community lending during the Great Depression, the FHLBanks, for decades, had primarily been associated with supporting homeownership by making funding available for mortgage lending in both good and bad economic times.

It's true that over time, FHLBank members have increasingly turned to non-mortgage collateral sources in exchange for advances, but from my vantage point as a former regulator, I don't see this as a problem. Not here in California or across the country, as we know that economic revitalization comes in all shapes and sizes and our local community lenders need this funding to compete and survive.

Alarms went off when it was revealed that the FHLBanks provided substantial advances to the member institutions that folded last spring when they succumbed to questionable

practices in the high-interest-rate environment shaped by the Fed to fight inflation. It is important to note that the FHLBanks didn't suffer any losses when the banks failed.

In fact, on March 27, Federal Deposit Insurance Corp. Chairman Marty Gruenberg cited the critical role that the FHLBanks played in keeping the banking system liquid after Silicon Valley Bank and Signature Bank failed. He told the Senate Banking Committee: "Over the past two weeks, banks have relied on new Federal Home Loan Bank advances to strengthen liquidity and have also pre-positioned additional collateral at the FHLBanks to support future draws if needed."

In the week after those failures, FHLBanks again answered the call of many of their financial institutions. They issued \$304 billion in debt through the global capital markets to provide more liquidity to FHLBank member institutions nationwide. Similar scenarios unfolded during the Covid-19 pandemic and the Great Recession in 2007 and 2008. FHLBank advances increased from \$640 billion in June 2007 to \$1 trillion in September 2008.

These examples represent the benefits during bad economic times. Behind the scenes, the FHLBanks are ever-present in good times, too.

The presence of FHLBank members in the housing market saves consumers \$17 billion in interest payments annually. In California's housing market, that is real money. Without access to advances, capital requirements would go up for lenders, leaving fewer funds for member institutions to support community needs, ranging from home mortgages to community centers, playgrounds and other local projects. With their support for local lenders, FHLBanks empower a diverse banking system, ensuring that lenders of various sizes and with differing missions can exist.

What's clear is that the benefits of the FHLBank system greatly outweigh any perceived risks created by the FHLBanks' broadening their focus from housing to meeting new challenges that member institutions face today.

The winners are the American people.

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